



OFFICE OF HOUSING

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

Office of Lender Activities and Program Compliance

Mortgage Letter 2011-25

Alternative Reporting Requirements for Small Supervised Lenders and Clarification of Requirements for Supervised Lenders in Parent-Subsidiary Relationships

Frequently Asked Questions

1. Question: What is the “recertification” process?

Answer: Recertification is the process in which FHA-approved lenders complete their annual FHA reporting requirements in order to renew their FHA approval. Recertification requirements vary by lender approval type. For supervised, nonsupervised, and investing lenders, recertification includes paying the annual fee, submitting the electronic yearly certification, and submitting the FHA-required audits.

2. Question: When are FHA-approved lenders required to complete their recertification requirements?

Answer: All lenders must electronically recertify to FHA within 90 days of their fiscal year end.

3. Question: Where can I find more information on the recertification process?

Answer: If you have general questions about the recertification process, please visit the FHA Resource Center website at: <http://www.hud.gov/offices/hsg/sfh/fharesourcectr.cfm>, or call the FHA Resource Center toll-free at (800) CALL-FHA or (800) 225-5342 (Monday-Friday, 8 am to 8 pm ET, TDD: (877) TDD-2HUD (877) 833-2483).

Information on preparing a proper LASS submission is provided in the LASS User Guide at: http://www.hud.gov/offices/hsg/sfh/lass/lass_usermanual.cfm. LASS frequently asked questions are available at: http://www.hud.gov/offices/hsg/sfh/lass/faqs/lass_faqs.cfm. For specific questions on a LASS submission, please call the LASS accounting/auditing helpdesk at (202) 755-7400.

4. Question: I am a supervised lender with less than \$500 million in consolidated assets. What FHA-required audits must I submit in order to recertify under the Mortgage Letter 2011-25?

Answer: FHA-approved supervised lenders whose consolidated assets are less than \$500 million are required to submit a certified public accountant or a state-licensed independent auditor's: (1) report on internal control as it relates to administering HUD-assisted programs; and (2) report on compliance with specific requirements applicable to major or non-major



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HUD programs. In addition, these lenders must submit a copy of their fourth quarter Call Report.

5. **Question:** I am submitting reports prepared by an auditor to FHA for the first time. Where can my auditor find information on how to complete these audits and prepare these reports?

Answer: Please refer to the HUD Consolidated Audit Guide, Handbook 2000.04 (particularly Chapters 1, 2, and 7) for information on how to prepare audit reports for FHA programs. Example reports are provided in Chapter 2 of Handbook 2000.04 and in the Chapter 2 Transmittal change document, dated March 2, 2011. Please also refer to Mortgagee Letter 2011-05 for an update on recertification for supervised lenders that are in parent-subsidiary relationships.

6. **Question:** I am an auditor preparing the audited reports for an FHA-approved lender. The HUD Consolidated Audit Guide, Handbook 2000.04 example for a report on internal control is a combined report applicable to internal control over financial reporting and over compliance. Can I submit separate internal control reports?

Answer: Yes. You can submit separate reports on internal control over financial reporting and internal control over compliance. The HUD Consolidated Audit Guide, Handbook 2000.04 instructs that the example reports are illustrations of reports that may be issued in an audit in accordance with the guide, and that the examples are not meant to be all-inclusive. Auditors should exercise professional judgment in tailoring their reports to the circumstances of individual audits.

Please refer to the HUD Consolidated Audit Guide, Handbook 2000.04 (particularly Chapters 1, 2, and 7) for information on how to prepare audit reports for FHA programs. Example reports are provided in Chapter 2 of Handbook 2000.04 and in the Chapter 2 Transmittal change document, dated March 2, 2011.

7. **Question:** I am an auditor preparing the audited reports for a supervised lender with less than \$500 million in consolidated assets. HUD Consolidated Audit Guide, Handbook 2000.04 example for a report on internal control is a combined report applicable to internal control over financial reporting and over compliance. How should I prepare a report on internal control over just compliance?

Answer: The HUD Consolidated Audit Guide instructs that the example reports are illustrations of reports that may be issued in an audit in accordance with the guide, and that the examples are not meant to be all-inclusive. Auditors should exercise professional judgment in tailoring their reports to the circumstances of individual audits. When preparing reports over internal controls and compliance, an auditor need not state that it has audited the financial statements of the lender if no audit of the financial statements was performed or required.



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Please refer to the HUD Consolidated Audit Guide, Handbook 2000.04 (particularly Chapters 1, 2, and 7) for information on how to prepare audit reports for FHA programs. Example reports are provided in Chapter 2 of Handbook 2000.04 and in the Chapter 2 Transmittal change document, dated March 2, 2011.

8. Question: Will the LASS system be adapted to handle these types of submissions?

Answer: FHA is in the process of updating the LASS system. Although a supervised lender with less than \$500 million in net worth is not required to provide FHA with audited financial statements, LASS has not yet been modified to recognize this change and will not accept a submission with a blank financial data template. Lenders that are reporting under the waiver are advised to fill in the LASS template with zeros or Call Report information in order to submit the required internal controls and compliance reports. Auditors may upload a disclaimer of opinion stating that they are not attesting to the financial information entered into the LASS financial data templates. If uploading a disclaimer of opinion, auditors should specify that this is the type of audit being submitted under line item G3000-006. Auditors and lenders may call the LASS accounting/auditing helpdesk at (202) 755-7400.

9. Question: I am a lender or auditor preparing the audited internal controls and compliance reports for a supervised lender with less than \$500 million in consolidated assets. Can I submit a hard copy of these audits while the LASS system is being updated?

Answer: Yes. FHA is in the process of updating the LASS system for supervised lenders with less than \$500 million in assets. During this time, auditors submitting the internal controls and compliance reports for these lenders may do so via the online LASS system, or may mail hard copies of the reports to FHA. If mailing hard copies of a lender's audited internal controls and compliance reports, please note the following: (1) you *must* submit two copies of each report; (2) you *must* include a cover letter that with the FHA lender/mortgagee identification number that claims the exemption for supervised lenders under the April 7, 2011 waiver; (4) the FHA lender/mortgagee identification number must be written on the upper right-hand corner of each separate document; (3) all lenders must pay the annual fee and submit the annual certification online via the FHA Connection; (5) a lender's recertification will be considered "submitted" from the date of *receipt* of mailed reports by FHA's Office of Lender Activities and Program Compliance. Please keep this in mind when considering recertification deadlines.

10. Question: I am an auditor preparing the audited internal controls and compliance reports for a supervised lender with less than \$500 million in consolidated assets. Can I submit my internal controls and compliance reports via e-mail or fax?



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Answer: No. FHA will not accept e-mailed or faxed submissions of recertification internal controls and compliance reports.

11. Question: I am a supervised lender with less than \$500 million in consolidated assets. Where do I mail my FHA recertification internal controls and compliance reports?

Answer: Supervised lender with less than \$500 million in consolidated assets and their auditors may send internal controls and compliance reports via U.S.P.S. to:

Office of Lender Activities and Program Compliance
Attention: Jason Boldin
451 7th Street, S.W.
Room B-133 – P3214
Washington D.C. 20410

Supervised lender with less than \$500 million in consolidated assets and their auditors may send internal controls and compliance reports via courier to:

Office of Lender Activities and Program Compliance
Attention: Jason Boldin
490 L'Enfant Plaza East, S.W.
Suite 3214
Washington D.C. 20024

Phone: 202-708-1515.